

Message Text

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60/53

ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /105 W

----- 057631

R 170941Z MAR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7774

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

UNCLAS SECTION 1 OF 3 TOKYO 4016

C O R R E C T E D C O P Y (PARA 2 LNE 4 "3.6" VICE 3....6)

LASS FEDERAL RESERVE, LABOR AND EXIMBANK

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - WEEK OF MAR 11-17

1. SUMMARY: NEW STATISTICS RELEASED THIS PAST WEEK GIVE MIXED SIGNAL OF RECOVERY PROGRESS. JAN PRODUCTION RISE REVISED UPWARD FROM 1.2 PERCENT TO 2.0 PERCENT OVER DEC. EXPORTS AND B/P VERY STRONG IN FEB, AND MONETARY EXPANSION PICKED UP IN JAN. NEVERTHELESS, DESULTORY SHIPMENTS AND INVENTORY LEVELS AND POSSIBILITY THAT STRENGTH IN NEW MACHINERY ORDERS MAY BE ONLY TEMPORARY, CONTINUES TO CLOUD NEAR-TERM RECOVERY PROSPECTS. JERC NOW FORECASTS REAL GNP WILL INCREASE BY ONLY 3.6 PERCENT IN CY 1976.

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WM NEW JAPANESE ECONOMIC RESEARCH CENTER FORECAST PREDICTS SLOW DOMESTIC REVIVAL DESPITE STRONG RISE IN EXPORTS. ECONOMIC FORECAST BY JERC RELEASED THIS WEEK PREDICTS THAT REAL GNP GROWTH IN CY 76 WILL BE ONLY 3.6 PERCENT EVEN THOUGH REAL EXPORTS OF GOODS AND SERVICES ARE PREDICTED TO RISE AT 18.6 PERCENT ANNUAL RATE DURING FIRST HALF OF YEAR. SALIENT FEATURE OF THE FORECAST, WHICH IS BASED ON LARGE-SCALE ECONOMETRIC MODEL, IS THE FAILURE OF THE RAPID EXPORT RISE TO HAVE SIGNIFICANT STIMULATIVE IMPACT UPON DOMESTIC CONSUMPTION OR ON PLANT AND EQUIPMENT INVESTMENT.. JERC NOTED THAT EXPORT SECTOR IS NOT LARGE ENOUGH RELATIVE TO AGGREGATE DEMAND TO CREATE STRONG PICKUP IN DOMESTIC SPENDING. ANTICIPATION OF RATHER LOW INCREASE IN WAGES DURING SPRING LABOR OFFENSIVE ALSO CITED AS FACTOR CONTRIBUTING TO CONTINUED STAGNATION IN CONSUMPTION. MODEL'S FORECAST OF 4.3 PERCENT REAL GROWTH IN JFY 76 IS IN CONTRAST TO OFFICIAL GOJ PROJECTION OF 5.6 PERCENT. BALANCE OF TRADE AND PAYMENTS FORECAST TO BE IN VERY SUBSTANTIAL SURPLUS IN SECOND HALF OF 1976, BUT DETERIORATE NEXT YEAR. FOLLOWING TABLE SUMMARIZES JERC FORECAST FOR NEXT 18 MONTHS BY HALF YEARS, SEASONALLY ADJUSTED, WITH ALL EXCEPT B/P SERIES IN CONSTANT PRICES.

PERCENT CHANGE FROM PRIOR PERIOD AT ANNUAL RATES

	1976		1977	
	FIRST HALF	LAST HALF	FIRST HALF	
GNP	3.0	4.9	7.1	
PRIVATE CONSUMPTION		1.3	3.5	7.3
PVT. PLANT AND EQUIP INVEST	-4.7	0.3	3.2	
EXPORTS	18.6	7.5	4.1	
IMPORTS	3.6	8.0	6.2	
IND. PRODUCTION	3.9	5.7	8.7	
BALANCE OF PAYMENTS (NSA) (BILLION DOLLARS)				
EXPORTS	28.8	34.7	32.8	
IMPORTS	26.6	27.7	29.8	
TRADE BALANCE	2.1	7.0	3.0	
CURRENT ACCOUNT	11.3	3.6	-1.4	

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BASIC BALANCE - 1.8 2.5 -2.0

3. JAN INDUSTRIAL OUTPUT ROSE SHARPLY BUT PRODUCERS' SHIPMENTS DECLINED ACCORDING TO REVISED FIGURES. SEASONALLY ADJUSTED INDEX OF MINING AND MANUFACTURING PRODUCTION (JEI 212) ROSE 2.0 PERCENT FROM PRIOR MONTH RATHER THAN 1.4 PERCENT ORIGINALLY ESTIMATED. HOWEVER, PRODUCERS' SHIPMENTS OF FINISHED GOODS, S.A. (JEI 239)

FELL 1.4PERCENT, A CONSIDERABLY LARGER DROP THAN THE
INITIAL ESTIMATE OF 0.3 PERCENT DECLINE.
INVENTORY TO SHIPMENTS RATIO (JEI 253) ROSE 1.2 PERCENT

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INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-02 PRS-01 /105 W

----- 045907

R 170941Z MAR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7775

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

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FROM PRIOR MONTH. WHETHER FINAL DEMAND WILL PICK UP
ENOUGH TOPERMIT RECENT SPURT IN PRODUCTION TO CONTINUE
REMAINS CRITICAL QUESTION IN ASSESSING SHORT-TERM ECONOMIC
PROSPECTS. JAN INCREASE IN OUTPUT WAS LED BY HSARPLY
HIGHER PRODUCTION OF AUTOS, TRUCKS AND BUSSES (JP 15.6
PERCENT), ELECTRICAL MACHINERY (UP 8.3 PERCENT) AND
PRECISION INSTRUMENTS (UP 17.3 PERCENT). DETAILS
OF REVISED JAN PRODUCTION, SHIPMENTS AND INVENTORIES WILL
BE PROVIDED SEPTEL.

4. JAN NEW PRIVATE MACHINERY ORDERS ROSE 15.7 PERCENT
ON SEASONALLY ADJUSTED BASIS. WHILE SECOND SUCCESSIVE
MONTHLY INCREASE BROUGHT NEW PRIVATE ORDERS FOR MACHINERY,

EXCLUDING SHIPS (JEI 337), BACK TO LEVEL PREVAILING
IN MID-1975, THAT IS STILL MORE THAN 15 PERCENT BELOW
YEAR-EARLIER LEVEL. MOREOVER, PRESS STATEMENT BY JAPAN
MACHINERY FEDERATION CAUTIONS THAT RISE APPEARS TO BE
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TEMPORARY RESPONSE TO SUDDEN INCREASE IN EXPORT DEMAND.
FEDERATION SSAYS SURVEY OF 167 MAJOR MACHINERY FIRMS
INDICATES THAT ORDERS WILL RISE NEARLY 30 PERCENT DURING
JAN-MARCH QUARTER BUT WILL DECLINE BY 17 PERCENT IN
FOLLOWING APRIL-JUNE PERIOD.

	(BIL YEN))	(PCT. CH. FROM PRIOR MONTH)
NOV	178.3	- 12.9
DEC	193.5	8.5
JAN	223.9	15.7

5. WHOLESALE PRICES ROSE 0.7 PERCENT IN FEB TO RECORD
EIGHTH SUCCESSIVE MONTHLY INCREASE. SHARP RISE IN
WHOLESALE PRICE INDEX (JEI 471) REPRESENTED INCREASES IN
WIDE RANGE OF ITEMS, INCLUDING STEEL, NON-FERROUS METALS,
RAW COTTON, LUMBER, AND FOODS. GOJ OFFICIALS SAID THAT
DESPITE RECENT UPSWING IN WPI, WHICH HAS SEEN INDEX
ADVANCE AT 6.2 PERCENT ANNUAL RATE DURING PAST SIX MONTHS.
GOVT WOULD ATTAININ MARCH INFORMAL GOAL OF HOLDING WPI
INCREASE TO ONLY 4.6 PERCENT ABOVE MAR 75.

	INDEX (NSA, 1970-100)	PCT. CH. FROM PRIOR MO.
DEC	159.2	0.6
JAN	160.5	0.8
FEB	161.6	0.7

6. JAPAN'S B/P POSITION RECORDED VERY SHARP IMPROVEMENT
IN FEB. OVERALL BALANCE SWUNG FROM \$1,059 MIL DEFICIT IN
JAN TO LARGE \$630 MIL SURPLUS IN FEB MAINLY DUE TO LARGER
THAN SEASONAL IMPROVEMENT IN TRADE AND MASSIVE NET INFLOW
OF LONG-TERM CAPITAL. FEB TRADE SUJQLUS WAS \$660 MIL
UNADJUSTED; WHILE SEASONALLY ADJUSTED TRADE SURPLUS OF \$774
MIL WAS LARGEST IN PAST ONE YEAR. FEB LONG-TERM CAPITAL
RECORDED ALL-TIME HIGH NET INFLOW OF \$320 MIL. BOND ISSUES
ABROAD BY JAPANESE ENTERPRISES HIT HIGH RECORD (\$236 MIL
NET INFLOW) AND FOREIGN INVESTMENT IN JAPANESE SECURITIES
WAS ALSO ERY BRISK (\$180 MIL NET FOOEIGN PURCHASES). PRELIM
STATISTICS SHOW CURRENT ACCOUNT SURPLUS OF \$200 MIL AND
SURPLUS OF BASIS BALANCE OF \$520 MIL IN FEB. CHANGE IN
COMMERCIAL BANKS' NET SHORT-TERM POSITION RELATIVELY SMALL,
WITH EXPORT OF SHORT-TERM FUNDS OF \$60 MIL. OFFICIAL
SETTLEMENTS' BALANCE RECORDED LARGE \$570 MIL SURPLUS, AND
OFFICIAL RESERVES INCREASED SHARPLY BY \$798 MIL. THE YEN
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STRENGTHENED AGAINST DOL EARLY PART OF FEB BUT WEAKENED SLIGHTLY TOWARD MONTH-END. AVERAGE YEN/DOL RATE APPRECIATED TO 301.98 YEN PER DOL IN FEB FROM 304.73 YEN PER DOL IN JAN. (SEPTEL WILL CONTAIN USUAL DETAILED B/P FIGURES.)

7. JAPAN'S EXPORTS, IMF BASIS (JEI 44) CONTINUED TO INCREASE ON SEASONALLY ADJUSTED BASIS AND RECORDED HEALTHY 4.2 PERCENT GROWTH IN FEB, RECORDING THIRRD CONSECUTIVE MONTH OF INCREASE. ADJUSTED IMPORTS (JEI 48), ON THE OTHER HAND, DECLINED 2.9 PERCENT IN FEB AFTER RECORDING SECOND STRAIGHT MONTH OF MODERATE GROWTH.

EXPORTS, IMPORTS, IMF BASIS, S.A.

(MIL DOLS; PCT CH FROM PRIOR MO IN PAREN)

	EXPORTS	IMPORTS	BALANCE
1976-DEC	4,867 (11.5)	4,423 (4.6)	444
1976-JAN	4,923 (1.2)	4,486 (1.4)	437
FEB	5,130 (4.2)	4,356 (MIN 2.9)	774

NOTE: REVISED SEASONALLY ADJUSTED MONTHLY TRADE FIGURES FOR 1975 WERE REPORTED IN ENCLOSURE NO. 2, TOKYO A-84, AND WILL PROBABLY APPEAR IN MAR 75 ISSUE OF JEI (JAPANESE ECONOMIC INDICATORS, EPA).

8. IN JAN EXPORT AND IMPORT VOLUME BOTH INCREASED VERY SHARPLY ON SEASONALLY ADJUSTED BASIS ON TOP OF SIMILARLY HEALTHY GAINS REGISTERED IN PRIOR MONTH. JAN EXPORT VOLUME (JEI 45, S.A.) INCREASED SUBSTANTIALLY BY 10.2 PERCENT, AGAIN SETTING A NEW ALL-TIME HIGH RECORD LEVEL FOR THE SECOND CONSECUTIVE MONTH. JAN IMPORT QUANTUM INDEX (JEI 49, S.A.) ALSO ROSE SHARPLY BY 7.1 PERCENT TO 130.9 AND HAS NOW REGAINED LEVEL OF DEC 74. EXPORT AND IMPORT VOLUMES IN JAN BOTH REVISED UPWARD VERY SHARPLY FROM INITIAL ESTIMATE OF 1.3 PERCENT GROWTH FOR EXPORT VOLUME AND 4.7 PERCENT DROP FOR IMPORT VOLUME (REPORTED TOKYO 2382, 2302), DUE TO LARGE UPWARD REVISION OF (A) MOF

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-15 AID-05 EB-07

NSC-05 CIEP-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 PRS-01 /105 W

----- 045510

R 170941Z MAR 76

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7776

DEPARTMENT OF TREASURY WASHDC

INFO AMEMBASSY BONN

AMEMBSSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

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UNADJUSTED INDICES AND (B) EPA SEASONAL ADJUSTING
FACTORS. MOF'S ESTIMATES FOR FEB 76 (REPORTED TOKYO
3914) INDICATES SMALL FURTHER RISES BOTH IN EXPORT AND
IMPORT VOLUMES, UP 0.5 PERCENT AND UP 0.3 PERCENT,
RESPECTIVELY (SEASONALLY ADJUSTED VY EMBASSY ON BASIS OF
EPA SEASONAL ADJUSTING FACTORS UNOFFICIALLY PROVIDED).
QUANTUM INDICES OF EXPORTS AND IMPORTS, S.A., 1970-100
(PCT CH FROM PRIOR MONTH IN PAREN)

	EXPORTS	IMPORTS
1975-DEC(SEE NOTE)	174.3 (7.7)	122.2 (4.4)
1976-JAN(SEE NOTE)	192.0 (10.2)	130.9 (7.1)
FEB (EST.)	(0.5)	(0.3)

NOTE: ALL FIGURES ABOVE ARE BASED ON NEWLY REVISED EPA
SEASONAL ADJUSTING FACTORS AND THEREFORE MAY NOT BE
CONSISTENT WITH DATA PREVIOUSLY TRANSMITTED, EXCEPT
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OM MONETARY AGGREGATES IN JAN (SA) ALL INCREASED MORE
RAPIDLY THAN THE UNUSUALLY SLOW ADVANCE IN DEC, BUT NOT AS
FAST AS IN NOV. NARROWLY DEFINED MONEY SUPPLY, M1 (JEI
123, S.A.) ROSE SHARPLY BY 2.1 PERCENT IN JAN, COMPARED WITH
AVERAGE MONTHLY INCREASES IN FOURTH QUARTER OF 1.2 PERCENT.
GROWTH RATE OF BROADLY DEFINED MONEY SUPPLY, M2 (SA)
OF 1.6 PERCENT DURING JAN WAS SOMEWHAT MORE RAPID THAN 1.4
PERCENT AVERAGE IN FOURTH QUARTER. LOANS AND DISCOUNTS OF

ALL BANKS (JEI 133, SA) CONTINUED TO RISE IN JAN AT USUAL
MONTHLY GROWTH RATE OF 0.9 PERCENT WHICH PREVAILED ALMOST
CONSISTENTLY THROUGHOUT ALL OF 1975.

MONEY AND CREDIT, S.A.

(BIL YEN: PCT CH FROM PRIOR MO IN PAREN)

	M1	M2	LOANS AND DISCOUNTS	
1975-NOV	46,823 (4.1)	121,004 (2.2)	87,061	(0.9)
DEC	46,959 (0.3)	121,664 (0.5)	87,756	(0.8)
1976-JAN	47,954 (2.1)	123,571 (1.6)	88,508	(0.9)

FACTORS CONTRIBUTING TO MONEY SUPPLY GROWTH

	1975		1976	
	NOV	DEC	NOV	JAN
(MONTHLY PERCENT CHANGE AT ANNUAL RATE, I.E., TIMES 12)				
M2, S.A.	26.3	6.5		18.8
M2, N.S.A.	34.4	47.4		MIN 21.7

FACTORS CONTRIBUTING TO CHANGES IN M2, N.S.A.

CREDITS TO:

PRIVATE SECTOR	17.6	27.8	MIN 2.4
NATL GOVT	20.6	12.4	MIN 7.3
LOCAL GOVTS	0.9	2.6	MIN 0.5
FOREIGN			
ASSETS, NET	-1.4	1.8	MIN 2.8
OTHER	-3.3	2.8	MIN 8.7

TOTAL ALL

FACTORS	34.4	47.4	MIN 21.7
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FOLLOWING ARE REVISED SEASONALLY ADJUSTED MONETARY
AGGREGATES (MONTH-END FIGURES, IN BIL YEN) FOR 1975 AND
THEREFORE DIFFER FROM THOSE IN THE FEB JEI ISSUE OR
PREVIOUSLY REPORTED, EXCEPT TOKYO 2382, PARAS 3 AND 4.

	1975 M1	M2	L AND D
JAN	42,541	107,283	79,363
FEB	43,020	108,491	80,096
MAR	43,029	109,423	80,811

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APR	43,539	110,542	81,541
MAY	43,600	111,670	82,299
JUNE	43,938	112,979	83,055
JULY	44,691	114,457	83,818
AUG	46,277	116,756	84,735
SEP	45,268	116,800	85,388
OCT	44,973	118,413	86,281
NOV	46,823	121,004	87,061
DEC	46,959	121,664	87,756

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Margaret P. Grafeld
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04 MAY 2006

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